

INSTRUCTIONS FOR THE PREPARATION OF
ALABAMA DEPARTMENT OF REVENUE
Form PTE-C and Schedule PTE-CK1
Nonresident Composite Payment Return

2006

An Alabama Subchapter K entity/S corporation may file composite returns and make composite payments on behalf of some or all of its nonresident owners/shareholders if there are one or more nonresident owners/shareholders during any part of the taxable year (determined without regard to extensions).

By filing Form PTE-C, an Alabama Subchapter K entity/S corporation reports each nonresident owner's/shareholder's share of the Alabama Subchapter K entity/S corporation **income**. No further filing may then be required by an individual owner/shareholder. If an individual nonresident owners/shareholder has other income in this State or is due a refund (e.g. due to a net operating loss carryforward), a Form 40NR, Alabama Individual Nonresident Income Tax Return, must be filed by that owner/shareholder. On Form 40NR, the owner/shareholder reports all Alabama income including the owner's/shareholder's share of the Alabama Subchapter K entity/S corporation income. The composite payment made by the Subchapter K entity/S corporation on behalf of its nonresident owners/shareholders will be accounted for as an estimated tax payment on the owners'/shareholders' return(s).

Form PTE-C and other information are available on the internet from our website at www.revenue.alabama.gov.

Nonresident Agreements (Schedule NRA).

An Alabama Subchapter K entity/S corporation may file the agreement of each nonresident owner/shareholder of the entity (1) to file a return and make timely payments of all taxes imposed on the owner/shareholder with respect to the income of the Alabama Subchapter K entity/S corporation, and (2) to be subject to personal jurisdiction in this State for the purpose of the collection of unpaid income tax, together with related interest and penalties, from the nonresident owner/shareholder. A Subchapter K entity/S corporation is not required to make a composite payment for any nonresident owner/shareholder that certifies in writing, under penalty of perjury, to the entity prior to the original due date of the entity's income tax return that the nonresident owner/shareholder has fully paid its Alabama income tax attributable to its distributive share of the entity's net taxable income allocated and apportioned to Alabama with respect to its taxable year.

Failure of Nonresident Owner in Subchapter K Entity to Timely File Form 40NR.

If the nonresident owner that has filed a NRA does not pay the tax due at the required time, the Subchapter K entity shall make the required payment of income tax due within 60 days after notice and demand from the Department. The tax due is the total of each owner's distributive share of the entity's net taxable income allocated and apportioned to Alabama multiplied by 5% for all non-corporate nonresident owners and 6.5% for all corporate nonresident owners.

Failure of S Corporation to Timely File the Nonresident Agreements.

The S corporation is required to complete Form PTE-C and pay the tax due for all nonresident shareholders who fail to timely file the nonresident shareholder agreement. The tax due shall be computed at 5% on each nonresident shareholder's pro rata share of income allocated and apportioned to this state.

General Instructions

Period Covered.

File the 2006 return for calendar year 2006 and fiscal years that begin in 2006 and end in 2007.

Original Due Date.

The calendar year return is due on or before April 16, 2007 for Subchapter K entities. The calendar year return is due on or before March 15, 2007 for S corporations. For fiscal year or short year taxpayers, the return is due on or before the 15th day of the 4th month following the close of the tax period for Subchapter K entities. For fiscal year or short year taxpayers, the return is due on or before the 15th day of the 3rd month following the close of the tax period for S corporations. If the 15th falls on Saturday, Sunday, or a state holiday then the due date will be considered the following business day.

Any changes must be made on an amended Form PTE-C no later than the extended due date of the Subchapter K entity's/S corporation's return. If an amended Form PTE-C results in overpayment of tax, the overpayment may be refunded or credited to the next year's filing. Any changes in income affecting the owner's/shareholder's tax after the extended due date, must be made on the owner's/shareholder's applicable tax return. (Individual – Form 40NR, C corporation – Form 20C, S corporation – Form 20S, or Fiduciary – Form 41.)

Subchapter K entities, Corporations, Trust, and Estates with income from Alabama are required to file a separate return. Form PTE-C (composite return) does not satisfy the filing requirement for Subchapter K entities, Corporations, Trusts, or Estates. For more information/instructions call ADOR at 334-242-1033.

Extension.

If an extension for filing form PTE-C is requested or if estimated payments will be made, form PTE-C must be completed and submitted with the tax due on or before the original due date. Unextended PTE-C returns filed after the due date will be assessed failure to file penalties. Any changes must be made on an amended Form PTE-C no later than the extended due date of the Subchapter K entity's/S corporation's return. A completed Alabama Schedule K-1 for each owner/shareholder included on Form PTE-C should be attached to Form 65/Form 20S.

CAUTION: All composite payments (i.e. estimated, extended) made by Subchapter K entities/S corporations must be submitted with Form PTE-C. DO NOT SUBMIT FORM 4868A, FORM 20CD, OR FORM 20E.

Payment of Tax.

The total tax liability on the calendar year composite return is due on or before April 16, 2007 for Subchapter K entities. The total tax liability on the calendar year composite return is due on or before March 15, 2007 for S corporations. For fiscal year or short year taxpayers, the return is due on or before the 15th day of the 4th month following the close of the tax period for Subchapter K entities. For fiscal year or short year taxpayers, the return is due on or before the 15th day of the 3rd month following the close of the tax period for S corporations. Payments made after the original due date will be subject to interest and penalty charges. Make check or money order payable

to: Alabama Department of Revenue. Write the Subchapter K entity's/S corporation's Federal Employer Identification Number (FEIN), Form PTE-C, and the tax year on the check.

Section 41-1-20, **Code of Alabama, 1975** requires the use of **Electronic Funds Transfer (EFT)** for all single tax payments of \$750 or more. Taxpayers must register to use EFT and substantial penalties can be assessed for non-compliance. Call the Alabama Department of Revenue EFT Hotline at (334) 242-0192 or 1-800-322-4106, option 7 for further information.

CAUTION: Do not attach the Form PTE-C or the Form PTE-C payment to the Form 65/Form 20S or vice versa.

Signature.

The return must be signed by an authorized officer of the Subchapter K entity/S corporation. Enter the date signed and the officer's title. If the return is prepared by someone other than an employee of the Subchapter K entity/S corporation, enter the signature and identification information of the preparer.

Specific Instructions

At the top, right-hand corner, check the appropriate box indicating calendar year, fiscal year, or short-year. Fill in the blanks indicating the beginning and ending dates of the tax period if the return is for a fiscal year or short period. Check the appropriate box indicating a Subchapter K entity or S corporation. Check the appropriate box if this form serves as an extension, amendment, or a request for refund. Enter the Federal Employer Identification Number (FEIN), Federal Business Code, name mailing address (with complete ZIP code) of the Subchapter K entity/S corporation. Enter the number of owners/shareholders, and number of nonresident owners/shareholders included in composite return. Check the box if the address of the entity has changed since the last filing.

LINE 1 – Enter the total amount of tax due from Schedule PTE-CK1, page 2 of PTE-C for every non-corporate nonresident owner/shareholder. Enter the total amount of tax due from Schedule PTE-CK1, page 2 of PTE-C for every corporate nonresident owner.

LINE 2 – If payment is being remitted after the original due date of this return, interest should be computed pursuant to Section 40-1-44.

LINE 3 – If this return is not filed on or before the due date, enter a failure to timely file penalty (the greater of 10% of the amount of net tax due or \$50). Tax due and not paid by the original due date will be subject to a failure to timely pay penalty of 1% per month (maximum 25%).

LINE 4 – Total amount of tax, interest, and penalty due. (Add lines 1 through 3 in each column and enter the total in each column)

LINE 5a – Enter the amount of any overpayment as shown on your previous year's Form 65C/Form 20SC.

LINE 5b – Enter the amount of any estimated and extension tax payments made.

LINE 5c – Enter the amount of any composite payments made on behalf of the entity filing Form PTE-C on this line. Make sure you include the Name and FEIN of the entity that made the composite payment on your behalf in the space provided.

LINE 5d – Enter the total amount of all payments/credits. (Add lines 5a through 5c in each column)

LINE 6a – Amount You Owe (If line 4 is larger than line 5d)

Subtract line 5d from line 4 in each column, and enter the amount(s) on line 6a.

NOTE: Interest, Penalties, and Credits must be calculated and applied separately for the non-corporate owners/shareholders and corporate owners.

LINE 6b – Enter the amount of the check submitted with Form PTE-C. The amount of payment remitted with Form PTE-C should equal the amount computed on LINE 6a, non-corporate owners/shareholder plus corporate owners.

LINE 7a – Overpayment

(If line 5d is larger than line 4)

Subtract line 4 from line 5d in each column, and enter the total overpayment from other columns on line 7a.

LINE 7b – Enter the amount of any overpayment as shown on line 7a you wish to be credited to your next tax year.

LINE 7c – Enter the amount of overpayment as shown on line 7a you wish to be refunded to you.

SCHEDULE PTE-CK1 (PAGE 2), LINES 1-11.

Schedule PTE-CK1 (Page 2) serves as the second page of Alabama Form PTE-C, and summarizes the requested information concerning nonresident shareholders and owners. Give complete information regarding each nonresident owner/shareholder as requested in columns (A), (B), (C), (D), (E), (F), (G), and (H). Column (C) should indicate one of the following: I = individual; T = trust; P = partnership, Ltd, LLC, LLP; S = S corporation, or C = C corporation. Column (D) should include the amount of each nonresident owner's/shareholder's pro rata share of nonseparately stated income plus portfolio income allocated and apportioned to Alabama as reported on Schedule K-1, Line M and Line Q. Column (F) should include the amount of each nonresident owner's pro rata share of the Alabama Subchapter K entity income plus guaranteed payments allocated and apportioned to Alabama for Subchapter K entities. Column (F) should include the amount of each nonresident owner's pro rata share of the Alabama S corporation income for S corporations. Separately stated items of loss, deduction, or expense which are subject to other limitations on the individual's return including but not limited to, federal income tax, contributions, investment interest expense, capital credits, gas and oil depletion, natural resources other than gas and oil depletion, and casualty losses are not included on the Form PTE-C. The owner's/shareholder's pro rata share of these items can only be taken on the nonresident individual return, Form 40NR. If a nonresident owner/shareholder has a loss, do not include the owner/shareholder on Form PTE-C. However, if a nonresident owner has a loss **and** has guaranteed payment(s), the owner may be included on Form PTE-C and the loss can be used to offset the guaranteed payment(s).

If this report covers more than eleven (11) nonresident owners, attach additional pages providing the same information as requested on Schedule PTE-CK1 (Page 2). The totals from the additional pages of Schedule PTE-CK1 should be combined and reported on line 13 of Schedule PTE-CK1 (Page 2).

If this report covers more than fifty (50) nonresident owners, submit Schedule PTE-CK1 on CD-Rom or diskette in Word or Excel format. All substitute PTE-CK1 schedules must include the same information and be in the same format as requested in lines 1 through 11.

LINE 12 – Enter the totals from Page 2, columns (D) through (H).

LINE 13 – Enter the total from any additional pages of PTE-CK1, columns (D) through (H).

LINE 14 – Enter the totals columns (D) through (F), (lines 13 + 14).

LINE 14G – Add lines 13 and 14, column G and enter here and on Page 1, line 1 under non-corporation owners/shareholders of Form PTE-C.

LINE 14H – Add lines 13 and 14, column H and enter here and on Page 1, line 1 under corporate owners of Form PTE-C.

Form PTE-C Replaces Alabama Form 65C and Form 20SC.